



**U.S. Department of Justice  
U.S. Attorney's Office  
Western District of Texas**

**Johnny Sutton, U.S. Attorney**

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**FORMER TEXAS ATTORNEY GENERAL DAN MORALES  
SENTENCED TO FEDERAL PRISON**

**United States Attorney Johnny Sutton, Special Agent in Charge of the Federal Bureau of Investigation Patrick A. Patterson, and Special Agent in Charge of the Internal Revenue Service - Criminal Investigation Enrique S. Fasci** announced today that former Texas Attorney General Dan Morales was sentenced to a total of four years in Federal prison for filing a fraudulent 1998 Income Tax Return and attempting to secure unearned attorney fees related to the financial settlement in the case of *The State of Texas v. The American Tobacco Company, et al.*

"In 1997, it became apparent that the tobacco cases were going to settle and that billions of dollars were going to be paid out in damages and attorney's fees. Dan Morales saw a river of money flowing by and created a scheme to illegally obtain more than \$500 million for his good friend and campaign advisor, Marc Murr. Mr. Morales also used his political campaign account for his personal use and did not pay taxes on the income he stole from that account in 1998. In this country, we elect public officials to promote justice in an honest and fair manner and not to seek personal enrichment for themselves or their friends," stated **U.S. Attorney Johnny Sutton**. "Today's sentence of four years in federal prison is a reminder that no one is above the law and that those who abuse the public's trust will be held accountable for their actions."

On July 17, 2003, Morales pled guilty to one count each of mail fraud and filing a false income tax return. The tobacco case scheme (mail fraud charge) and political contribution scheme (tax fraud charge) occurred simultaneously from 1996 through 1999 as Morales used the status of candidacy and public office to enrich and attempting to enrich himself and Marc Murr. As Attorney General of the State of Texas, Morales determined that the best interests of the State in the *Tobacco* litigation would be served by retaining private attorneys to finance and prosecute the case on behalf of the State. Morales entertained applications from a number of private law firms, eventually awarding the contract to five firms, sometimes referred to as the "Big Five", and alternatively as "Private Counsel". Private Counsel was made up of five successful Texas law firms, most of whom had contributed large amounts to Morales' campaigns. In early 1996, while negotiations to select the firms to act as Private Counsel were underway, Morales was already converting political contributions to personal use.

Later in 1996, Morales asked Private Counsel to make a substantial contribution to his campaign. Private Counsel refused to do so. Morales then summoned Private Counsel to a mandatory meeting and announced that Murr and another attorney were being hired to join Private Counsel on the *Tobacco* case. Private Counsel strenuously objected and refused to permit Murr to participate. Undeterred, Morales then schemed to secure payment of attorney's fees to Murr in spite of Private Counsel's objections. In support of this scheme Morales and Murr produced bogus state contracts intended to be used as evidence of Murr's involvement in the litigation, in order to justify Murr's claim for fees which could have amounted to \$520 million.

Meanwhile, as the tobacco case progressed from the March 1996 filing to the 1998 settlement, Morales' appetite for converted political contributions grew. After announcing in December 1997 that he would not seek re-election, Morales continued to convert money from his campaign fund account for his own personal benefit. However, Morales failed to include this illegitimate income in his 1998 income tax return. In that return, Morales claimed his income was only \$39,734 when records showed that he had converted over \$400,000 of political contributions for his own personal benefit. A substantial portion of the political contributions converted by Morales were used in the purchase and subsequent improvement of a \$775,000 home.

"Public Officials are entrusted with the public trust and abuses of that trust must be swiftly and severely dealt with within the rule of law. This case is a perfect example of a violation of that public trust and abuse of that position. This sentence should send a message to the public, that public officials are not above the law," stated **Patrick A. Patterson, Special Agent in Charge, FBI**.

"Public corruption cases invariably include significant income tax fraud. The IRS-CI commits considerable resources and personnel to ensure individuals who abuse their positions of trust are investigated for their financial crimes. Not only has justice been served, but the interests of all honest, taxpaying citizens have been served as well," stated **Enrique G. Fasci, Special Agent in Charge, IRS Criminal Investigation**.

In addition to the prison term, United States District Judge Sam Sparks ordered that Morales be placed on a term of supervised release for a period of three years after completing his prison term. As a condition of that supervised release term, Morales was ordered to pay \$36,000 to compensate the government for the costs of his supervised release, \$155,000 for the costs associated with the appointment of the United States Public Defender's office to represent him and \$146,112 in restitution to the U.S. Treasury as reimbursement for the tax loss associated with the under-reporting of income in Count Eleven.

The case was investigated by the Federal Bureau of Investigation and the Internal Revenue Service Criminal Investigation Division. Assistant United States Attorneys Sharon Pierce, Jim Blankinship and John Phinizy prosecuted this case on behalf of the government.

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